

1. What Is the Budget?

What is “the Federal budget”? It is:

- a plan for how the Government spends your money.

What activities are funded? How much does it spend for defense, national parks, the FBI, Medicare, issuing passports, and meat and fish inspection?

- a plan for how the Government pays for its activities.

How much revenue does it raise through different kinds of taxes—income taxes, excise taxes, and social insurance payroll taxes?

- a plan for Government borrowing.

If spending is greater than revenues, the Government runs a deficit. To finance deficits, the Government has to borrow money. Government borrowing adds to the national debt.

- something that affects the Nation’s economy.

Some types of spending—such as improvements in education and support for science and technology—increase productivity and raise incomes in the future.

Taxes, on the other hand, reduce incomes, leaving people with less money to spend.

- something that is affected by the Nation’s economy.

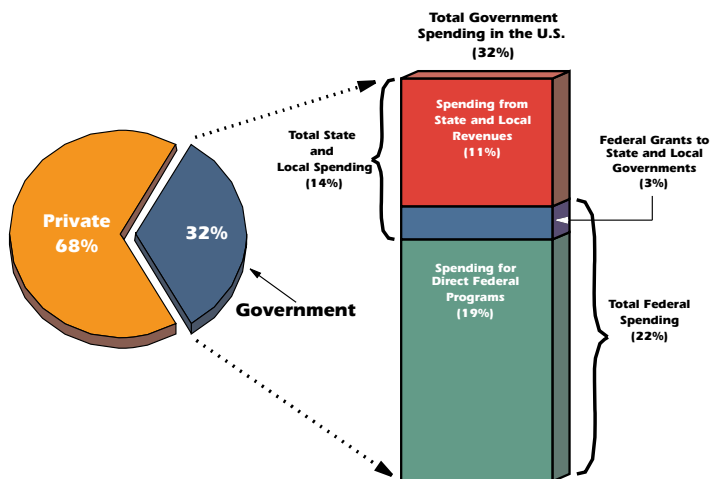
When the economy is doing well, people are earning more and unemployment is low. In this atmosphere, revenues increase and the deficit shrinks.

- an historical record.

The budget reports on how the Government has spent money in the past, and how that spending was financed.

The 1997 budget is a document that embodies the President’s budget proposal to Congress for fiscal 1997, the *fiscal* year that begins on October 1, 1996. It reflects the President’s priorities and his plan to balance the budget by 2002.

Chart 1-1. Government Spending as a Share of GDP, 1995



Note: Numbers do not add due to rounding.

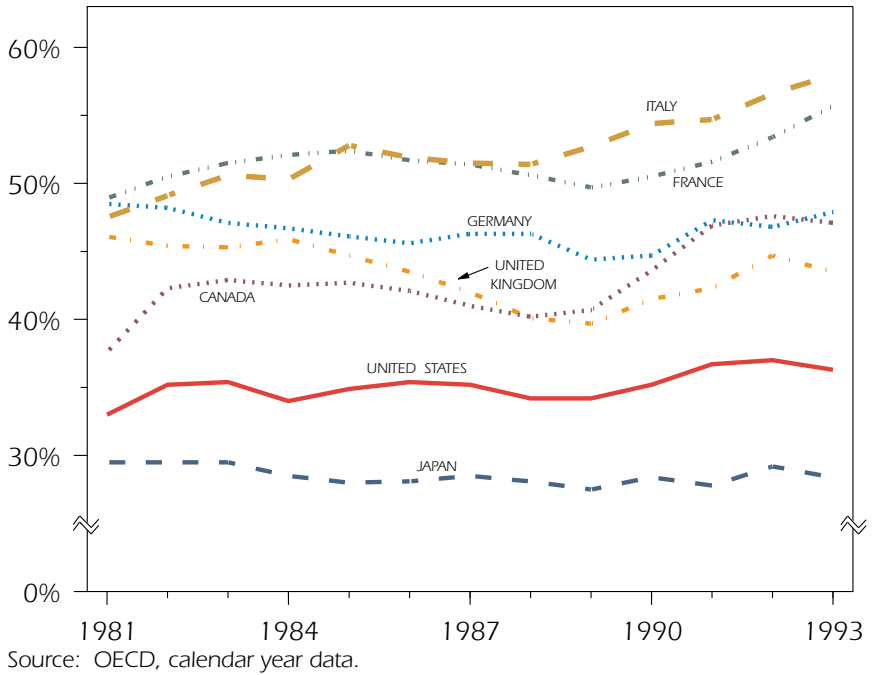
Total Government spending accounts for about one-third of the national economy. Federal spending is about two-thirds of this amount, or 22 percent of GDP.

The Federal budget, of course, is not the only budget that affects the economy or the American people. The budgets of State and local governments have an impact as well. While the Federal Government spends about 22 percent of the Gross Domestic Product (or GDP, which measures the size of the economy), State and local governments spend about another 11 percent (see Chart 1-1).

State and local governments are independent of the Federal Government, and they have their own sources of revenue (taxes and borrowing). But the Federal Government supplements State and local revenues by making grants to them. Of the \$961 billion that State and local governments spent in 1995, \$213 billion came from Federal grants.

Compared to six other industrialized nations, the United States allocates the smallest share of its GDP to government (Federal, State, and local combined), except for Japan (see Chart 1-2).

Chart 1-2. Total Government Outlays as a Percent of GDP



The United States allocates a smaller portion of its GDP to government than any other nation shown, except Japan.